APPENDIX

IN THE COURT OF APPEALS
OF THE STATE OF OREGON

MAINLAND INDUSTRIES, INC., Appellant - Cross-Respondent,	)	
	)	No. 78-6-90
v.	)	CA 19614
TIMBERLAND MACHINES AND ENGINEERING CORPORATION, et al, Respondents - Cross-Appellants.	)	

[August 18, 1982]

Appeal from Circuit Court, Clackamas County.

VAN HOOMISSEN, J.

Plaintiff Mainland Industries, Inc. (Mainland) appeals from a trial court decree that (1) ordered defendant Miller to assign a patent to Mainland, but allowed Miller a lifetime license in the patent, and (2) denied Mainland's prayer that a constructive trust be imposed on any profits earned by defendants as a result of their wrongful

use of the disputed patent. Defendants cross-appeal, contending that the trial court erred in holding that Mainland owns the patent and in holding that certain documents in defendants' possession belong to Mainland. We review de novo.

Mainland manufactures sawmill equipment. Defendant Miller was an employe of Mainland or of its predecessor company, Chipper Machines and Engineering Corp. (CM & E), from 1953 until 1978.[1] As Mainland's chief engineer, Miller was in charge of the firm's engineering department. His duties included inventing, designing, developing and engineering products and improving Mainland's product line.[2] He also served as Mainland's chief troubleshooter, solving problems and handling customer complaints. When something

went wrong, it was his responsibility to assign the work to another engineering department employe or to solve the problem himself.

The type of knife used in Mainland's product line is crucial. Miller realized that Mainland's headrig slabber would work better if its slotted knife could be eliminated. In the early 1970s, he bagan working on a new design. That effort led to a 1973 patent, which belongs to Mainland and is not in issue here. While the 1973 patent had the advantage of doubling knife life, users complained about the knife holder. Rather than assigning the problem, Miller handled it himself. He conceived a solution in 1976. [3]By changing the clamping mechanism, he designed a device that used an unslotted knife and that substantially eliminated the knife

holder problem. The new design also simplified production, reduced costs and made service easier. Miller did not disclose his new design to his employer.

In late 1976 and early 1977, after Miller had conceived of the new design, Mainland received more complaints about its 1973 knife holder. When a customer in British Columbia reported problems, Miller went there to investigate. After a meeting with management, he reported that "no known solution" to the problem existed. In 1977, Miller filed an application for a patent on his new design, and a patent was granted in 1978. Because Mainland was unaware of the new design, it continued to replace its 1973 knife holders with an older model using slotted knives. The older model reduced some customer complaints, but at the expense of shorter knife life.

Miller retired from Mainland about two months prior to the issuance of the 1978 patent. He immediately began working for defendant Timberland Machines & Engineering Corporation (TM & E), a company that he and defendant Swafford, Mainland's former chief accounting officer, organized to manufacture and sell products that compete with Mainland's product line. Shortly after Miller began working for TM & E, one of Mainland's customers purchased a 1978 knife holder from TM & E as a replacement for one of Mainland's 1973 knife holders. That customer had experienced problems with the 1973 holder and believed that TM & E's 1978 design would solve those problems.

The 1978 Patent

The first question is whether the trial court properly awarded the 1978

patent to Mainland. Absent an agreement to the contrary, when an employe is hired to invent, or is assigned the responsibility for solving a particular problem, any resulting invention belongs to the employer.[4] When the employment relationship is general, an employe is entitled to retain any patent he procures, even though the patent relates to the employer's product line. U. S. v. Dubilier Condenser Corp., 289 US 178, 187, 53 S Ct 554, 77 L Ed 1114 (1933); Standard Parts Co. v. Peck, 264 US 52, 58-59, 44 S Ct 239, 68 L Ed 560 (1924); Solomons v. United States, 137 US 342, 346, 11 S Ct 88, 34 L Ed 667 (1890); see Blum v. Commissioner of Internal Revenue, 183 F2d 281, 287 (3rd Cir 1950); Marshall v. Colgate-Palmolive-Peet Co., 175 F2d 215, 217, 81 PQ 517 (3rd Cir 1949); Daniel Orifice Fitting

Co. v. Whalen, 198 Cal App 2d 791, 797-98, 18 Cal Rptr 659 (1962); see also Restatement (Second) of Agency, § 397 (1958).

Defendants contend that Miller and Alfred Maede, CM & E's founder, entered into an express oral agreement under which Miller is entitled to the patent. At trial, Miller testified that before he consented to work for CM & E, Maede agreed

> "[t]hat anything that I invented on my own time, including my own materials and other facilities, would be my property alone. And following that, anything that I did in the office that was done with company time and materials, would be assigned normally to the company."

The testimony of Edmond Gurney, CM & E's former president, tended to corroborate Miller's testimony regarding the existence of some sort of an agreement. The existence of some agreement

was also substantiated by Elford, who had received independent engineering assistance from Miller at Maede's suggestion. Schermerhorn, Mainland's patent attorney, testified that it was

> "[his] understanding that the patents that belonged to CM & E were those that were made on company time and at the company expense. And that any work that Fred Miller did outside of company time and at his own expense would be his own patent."

Apparently discounting the testimony of Gurney, Elford and Schermerhorn, the trial court found that "The only evidence that such an agreement ever existed is Miller's word." The court concluded that no such agreement existed and that Miller's practice of assigning other patents related to the company's business to the company belied the existence of such an agreement. The trial court also found:

of a duty to assign. See Perkins v. Standard Oil Co., 235 Or 7, 15, 383 P2d 107, 383 P2d 1002 (1963) (course of conduct pursued by parties to contract over course of years is reliable evidence of parties' intent); see also Fish v. Air-O-Fan Products Corporation, 285 F2d 208, 210, 128 PQ 4 (9th Cir 1960); Marshall v. Colgate-Palmolive-Peet Co., supra, 175 F2d at 217-18; E. F. Drew & Co. v. Reinhard, 170 F2d 679, 683, 79 PQ 252 (2d Cir 1948); Daniel Orifice Fitting Co. v. Whalen, supra, 198 Cal App 2d at 797-98.

Miller was not able to recall where he was or when he conceived of the ideas for his new design, but it seemed likely to him that he thought about it at work. Miller was a salaried employe. He did not work specific hours. It was his practice to work evenings, both at

and away from his employer's premises. Arguably, he developed his new design at home. However, the place where an invention is developed is not determinative of whether the employer or the employe is entitled to a patent. Under similar facts, the court stated in Daniel Orifice Fitting Co. v. Whalen, supra:

> "* * * * It is difficult to understand how [the employe] could cut his mind off and on at will under the circumstances, i.e., think of things during the lunch hour, for example, which would constitute an improvement to plaintiff's product, and later claim such improvement as his own because he was not working for the company at that particular moment when the thought struck him* * * *" 198 Cal App at 798.

See Crown Cork & Seal Co. v. Fankhanel, 49 F Supp 611, 57 PQ 518 (D Md 1943); National Development Co. v. Gray, 316 Mass 240, 55 NE 2d 783, 788, 153 ALR 973 (1944); Parker Rust-Proof Co. v. Allen, 231 Mich 69, 203 NW 890 (1925).

Miller conceded that he often worked on office projects at home. Mainland's other engineering employes did the same. Miller testified that, almost without exception, he was the only employe who worked with Mainland's patent attorney. He admitted that the 1973 patent idea probably came to him at home. Yet, there was no question in his mind but that the 1973 patent belonged to Mainland. In many respects the 1978 design incorporated the same features as the 1973 design. How Miller could concede that Mainland was entitled to the 1973 patent, yet contend that the company was not entitled to the 1978 patent, is difficult to understand.

Defendants appear to contend that it was within Miller's sole discretion to determine whether any invention he created would belong to Mainland or to

himself. In Perkins v. Standard Oil Co., supra, 235 Or at 16, the Supreme Court quoted with approval the words of Justice Cardozo in Moran v. Standard Oil Co., 211 NY 187, 105 NE 217 (1914): "An invention to make so one-sided an agreement is not readily to be inferred." In view of the conflicting evidence concerning Miller's agreement with Maede, we cannot reasonably conclude that Maede would have put CM & E at the mercy of Miller in the manner defendants suggest. See 3 Corbin on Contracts 278-79 (1960). The testimony of CM & E's former president, Gurney, persuades us that, although Miller may have been entitled to patents on ideas that were unrelated to Mainland's product line, he was not entitled to patents directly related to his employer's product line. We conclude that the parties intended

that Miller would assign to Mainland any patents directly related to his employer's product line. Without question, the 1978 patent was directly related to Mainland's product line.

When, as here, the evidence is both conflicting and confusing and the credibility of some of the witnesses is in issue, we accord considerable weight to the conclusions of the trial court, even though we do review de novo. Dan Bunn, Inc., v. Brown, 285 Or 131, 145, 590 P2d 209 (1979). We agree with the conclusions reached by the trial court on the patent question. The trial court properly awarded the patent to Mainland.

The Miller License

Mainland contends the trial court erred in awarding Miller a lifetime license in the patent. The court explained:

> "* * * * This is done because Miller, had he have been truly larcenous, could have handled the matter with more cunning and probably have succeeded. What a man carries away in his mind from a former position of employment is usually his unless there is a signed covenant not to compete for a specific (relatively short) duration. * * * Miller wanted the patent for his own. He just went about it in the wrong way. * * * This Court is not saying Miller's actions were not wrong. However, had he handled it differently, ownership might be his and it is only equitable in that light that Miller enjoy some of the fruits of his labor and recover something for his diligence in spending weekends and evenings reducing the idea to a tangible form and for paying for the expense of copyrighting it."

Defendants argue that the license was properly granted under equitable principles embodied in the "shop-right" doctrine. Under that doctrine, an employer is granted a non-assignable license to a patent when an employe who works in a general or non-inventive capacity creates an invention using the employer's time and materials. See

U. S. v. Dubilier Condenser Corp., supra, 289 US at 188-89. The rationale for the rule is that because the patent resulted from use of the employer's property and from labor for which the employe was paid by his employer, it is equitable that the employer share in the invention. Defendants concede that no precedent exists for applying the "shop-right" doctrine in favor of an employe. Moreover, the facts here do not warrant application of the doctrine. As Mainland's chief engineer, Miller's duties included solving problems in the use of his employer's products. If a solution was possible, it was his duty to find it. Having already received a substantial salary from Mainland to invent, design and develop products and improvements, Miller now has no equitable claim to a license.[5]

An equity court has broad power to fashion an appropriate remedy. However, the court's discretion is not absolute, and it must be exercised within bounds of sound legal and equitable principles. Ellison v. Watson, 53 Or App 923, 930-31, 633 P2d 840, rev den 292 Or 109 (1981); Shumate v. Robinson, 52 Or App 199, 205, 627 P2d 1295 (1981).

In deciding whether Miller properly was awarded a license, we are also mindful of the maxims that equity will not aid a wrongdoer and that a party seeking equity must have clean hands. See North Pacific Lumber Co. v. Oliver, 286 Or 639, 650-53, 596 P2d 931 (1979). The trial court found that Miller had pursued a secret course of action in obtaining the 1978 patent. The court also found that:

> " * * * Miller did not invent the '78 patent just for fun. The

> evidence indicates very strongly that at the time the '78 patent was formulated it was intended as a replacement part for CM&E's then existing line of products. This combined with Miller's and Swafford's taking of documents not rightfully theirs adds up to bad faith and unclean hands and this Court cannot condone such activities."

We agree with that assessment. Miller's wrongdoing was directly related to his employment contract and to his employer's product line. Under the circumstances, we conclude that the trial court was not justified in granting Miller a license. See North Pacific Lumber Co. v. Oliver, supra, 286 Or at 653. That portion of the trial court's decree which awarded Miller a license in the patent is vacated.

Constructive Trust

Mainland next contends that the trial court erred in failing to impose a constructive trust upon any profits

received by defendants as a result of their wrongful use of the patent. A constructive trust is a trust created by operation of law when a person, through abuse of a fiduciary or confidental (sic) relation, or by bad faith, fraud or other unconscionable conduct, has obtained property or money which he should not, in equity and good conscience, hold and enjoy. Marston v. Myers et ux, 217 Or 498, 509, 342 P2d 1111 (1959); Shipe et al v. Hillman, 206 Or 556, 565, 292 P2d 123 (1955); Hurlbutt v. Hurlbutt, 36 Or App 721, 724, 585 P2d 724 (1978); rev den 285 Or 73 (1979); Davis v. Howard, 19 Or App 310, 313, 527 P2d 422 (1974).

The trial court ruled in favor of defendants on Mainland's claim for damages, because the court concluded that Mainland had failed to prove any damages. That ruling appears to have

missed the point. Mainland was seeking not only damages; it also was seeking to recover profits earned by defendants as a result of their wrongful use of the patent. While plaintiff's damages and defendant's profits may be interrelated, they are nonetheless distinct concepts.

Equity seeks complete relief. To be completely vindicated, Mainland is entitled to recover profits earned by defendants as a result of their wrongful use of the patent. Mainland would be deprived of what was justly its, and defendants would be unjustly enriched were they permitted to retain such profits. Substantial justice will be accomplished by preventing such unjust enrichment and by requiring restitution to Mainland of profits which in equity and good conscience did not belong to defendants. See Derenco v. Benj.

Franklin Fed. Sav. and Loan, 281 Or 533, 556-58, 577 P2d 477, cer den 439 US 1051 (1978); Duplate Corp. v. Triplex Co., 298 US 448, 450, 56 S Ct 792, 80 L Ed 1274 (1936); Leman v. Krentler-Arnold Co., 284 US 448, 455-57, 52 S Ct 238, 76 L Ed 389 (1932); Albino v. Albino, 279 Or 537, 550, 568 P2d 1344 (1977); Daniel Orifice Fitting Co. v. Whalen, supra, 198 Cal App 2d at 797 (1962) (because of the nature of the product, every sale by defendants necessarily cost plaintiff a sale); see also 76 Am Jur 2d Trusts, § 229.

Accounting

The next question is whether Mainland is entitled to an accounting. On the record here, we conclude that such further proceedings are appropriate. There is evidence in the record that

defendants earned profits as a result of their use of the patent. No suggestion has been made that any unusual difficulty would be experienced or expense incurred in arriving at an accounting for those profits. See Stephan v. Equitable S & L Assn., 268 Or 544, 576-77, 522 P2d 478 (1974) (difficulty and expense considered in denying request for accounting).

Documents

On cross-appeal, defendants contend that the trial court erred in finding that certain documents in defendants' possession belonged to Mainland. The documents were taken from Mainland's files when defendants Miller and Swafford left the company. Miller contends that he took some engineering documents primarily for sentimental reasons.[6]

Swafford contends that he took some accounting documents to defend against a possible tax suit.[7] The trial court found that the documents contained confidential and secret information.[8] But even if they did not, the documents belonged to Mainland. They were not the property of Miller of Swafford. See Midland-Ross Corporation v. Yokana, 185 F Supp 594, 604 (D NJ 1960) aff'd 293 F2d 411 (1961). The trial court correctly ordered their return.

Affirmed in part; reversed in part; that portion of the decree giving defendant Miller a license in the patent is vacated; remanded to the trial court with instructions to order an accounting of profits earned by defendants as a result of their wrongful use of the patent and to impose a constructive trust on such profits for the benefit of Mainland.

department specific projects on which to work, including inventing, designing, developing, and engineering various products, solving various problems with existing products, and improving existing products, and improving existing products.

"(d) making it possible for those companies to reduce [manu]facturing costs for products and increase profits.

"(e) working with each company's patent attorney to secure appropriate patent protection for inventions, developments, and designs of the kind set out above in subparagraphs (a) through (d) above and assigning to the companies all rights to those patents; and,

"(f) serving as an officer and director of Chipper Machines beginning in 1973 until the acquisition by plaintiff."

3

Miller testified that he had invented the knife holder in 1976 while he was employed by Mainland. Later, he testified that he had conceived the idea in 1975 while he was employed by CM & E

when he conceived the idea for the knife holder and that he was employed by Mainland "while he made modification in his original idea and when he prepared the drawings and made application for the patent."

4

The trial court found:

"Miller had a duty while employed by plaintiff and its predecessor to:

"(a) work on correcting the knifeholder if there were complaints about its efficiency or operation or to improve its performance.

"(b) devote the time required to a project if a patent was within reasonable contemplation.

"(c) assign work for improving the knifeholder to other trusted persons in his department if he did not have the time to do it himself.

"(d) follow up on (c) and see that the problems were solved.

"(d) disclose all ideas to his employer that were relevant to its products.

"(e) not work secretly in competition with his employer and

"(f) assign the patent on the 1978 knifeholder to plaintiff."

5

Defendants rely on Taylor v. Berkheimers, Inc., 48 Or App 901, 618 P2d 452, rev den 290 Or 271 (1980), for the proposition that, even though Miller may have acted wrongfully in appropriating the patent, he was not precluded from equitable relief. Taylor, however, is inapposite. There, we held that a corporate officer who had breached a fiduciary duty did not forfeit all rights to compensation for services rendered to his employer. Compensation is not an issue here.

6

The trial court found:

"When Miller left plaintiff's employ, he took with him engineering records owned by plaintiff. The

documents contain information not generally known to plaintiff's competitors which gives plaintiff an advantage over those competitors who do not know the information. Information contained in the documents was developed at great expense to plaintiff and its predecessor. The document would be very useful to anyone attempting to duplicate plaintiff's products or to compete with plaintiff, particularly defendants. The documents also contain information that plaintiff needs to operate its business. * * *"

7

The trial court found:

"When defendant Swafford left plaintiff's employ, he also took financial and accounting records owned by plaintiff. These documents contain financial and cost information not generally known to plaintiff's competitors which gives plaintiff an advantage over those competitors who do not know or use it. Information contained in the documents was developed at great expense to plaintiff. The documents would be very useful to anyone attempting to duplicate plaintiff's products or to compete with plaintiff, particularly defendants. * * *"

8

In Prentice Dryer v. Northwest Dryer, 246 Or 78, 424 P2d 227 (1967), cited by defendants, the alleged trade secrets were well known by competitors. 246 Or at 81-82.

IN THE CIRCUIT COURT OF THE STATE OF OREGON

FOR THE COUNTY OF CLACKAMAS

MAINLAND INDUSTRIES, INC. a Delaware corporation, Plaintiff, vs. TIMBERLAND MACHINES AND ENGINEERING CORPORATION, an Oregon corporation, E. H. SWAFFORD, F. L. MILLER and JOHN DOES 1 through 20, Defendants.	No.78-6-90 MEMORANDUM OPINION

The plaintiff's complaint is too full of redundancy and indirect complaints to be set out by paragraphs. Boiled down to understandable and succinct issues, its 13 pages may be summarized by saying Miller, a trusted chief engineer and Swafford, a trusted finance officer are both ex-employees of plaintiff, who, when they left their employment with plaintiff, each took confidential work products belonging to plaintiff. Swafford then set up a company that competes with plaintiff

not only in name (TM&E vs. CM&E) but in machinery furnished to the sawmill industry. That shortly after TM&E was organized, Miller retired from CM&E (Mainland) after having served on its Board of Directors and was its chief engineer and then joined Swafford at TM&E. That immmediately TM&E began competitive bidding with CM&E (Mainland) and could only do this because of the drawings, cost estimates and secrets Swafford and Miller purloined from CM&E, and which invclve several yeras to develop. Plaintiff asks for the return of all documents, drawings, estimates, inventions, etc., from Swafford and Miller. In a separate cause of action plaintiff asks for general and punitive damages and in a separate cause of suit, ask that any sales by TM&E be held in trust for plaintiff, because of the purloined documents.

Defendants answered, denying all accusations of misconduct, counter claiming

for damages and further alleging plaintiff has unclean hands and not entitled to equitable relief. Plaintiff replied and dstated among other things defendants have unclean hands.

Defendants prepared and filed a request for special findings of fact.

It appears to me there are two main issues, 1) who owns the 1978 knife holder patent and 2) are defendants required to return the "documents" they took with them when each left plaintiff's employment.

The answer to these questions premarily rest on an interpretation of the relationship of Fred Miller with plaintiff. E. H. Swafford was a finance officer with plaintiff and the law as it pertains to F. L.Miller, equally applies to Swafford. Because of the length of service of Miller, the scope of his dutiesand obligations, the specificity of plaintiff's request

i.e. patent, this inquiry will focus on Miller.

Fred Miller was not an ordinary person employed in a general capacity. He had special skills and was designated chief engineer. He had business acumen and served on the Board of Directors of CM&E. He was their "Chief" salesperson in the earlier times with CM&E, became acquainted with persons who needed their equipment and was a trouble shooter. When a mill had a problem, they would send for Fred Miller to solve it. He was an inventor holding approximately 73 patents and assigning the last one prior to the '78 patent to the Company. He was highly respected as an engineer by his contemporaries and praise was lavished upon him in court.

He was a close business and social friend of Meady (sic), former owner of CM&E. Miller claimed he had an under-

standing with Meady (sic) that he could own or keep anything he invented. There was no other evidence of such an agreement. Further, such an agreement is contrary to the Oregon Administrative Rule (OAR) 820-20-005(5)(a) and (b) as well as the National Society of Professional Engineers Code of Ethics § 9 (language from both sources set out later). As will be discussed later, Miller was not hired specifically solely to invent. He was their Chief Engineer, hired to design, develop, test machines and correct problems. It is easily argued by plaintiff that these duties included "inventing" if the design, development or corrective measure was economically patenable (sic).

DISCUSSION

(Law and Facts)

(Whenever underlining of language appears, and it does liberally, it is

mine.)

Patent law is intended to protect the inventor from the misappropriation of his ideas, promote creative thinking, and encourage technological progress. This is accomplished, unless there is an agreement or a duty to assign, by granting sole proprietary interest in a novel idea to its originator. A duty to assign can arrive via an express agreement (as a condition, implication, or expection of employment) or as a result of a special duty such as a fiduciary or trustee relationship.

The accepted general rule regarding patent ownership is derived from the holdings in Hapgood v. Hewitt, 119 US 226, 7 S.Ct. 193 (1886), Dalzell, et al v. Dueber Watchcase Mfg. Co. 149 US 315, 13 S.Ct. 886 1893), and U.S. v. Dubilier Condensor Corp. 289 US 188, 53 S.Ct. 577 (1933).

The limitation or exception to

the general rule is spawned from the holdings in Solomons v. U.S., 137 US 342, 346, 11 S.Ct. 88, 89 (1890), and Standard Parks v. Peck, 264 US 52, 445 Ct. 239 (sic, 44 S.Ct. 239) (1924). Many states have had the opportunity to rule on these provisions of law with the holdings, on close inspection, being fairly consistant (sic). A recent California case Logus Mfg. Corp. v. Nelson, 195 USPQ 566, 567 (1977) perhaps best summarizes the current status of patent law ownership.

> "If an employee is hired to invent or is given the task of devoting his efforts to a particular problem, the resulting invention is the employer's, and any patent obtained by the employee must be assigned to the other. See Standard Parts Co. v. Peck, 264 US 52.44 S.Ct. 239 *** Marshall v. Colgate-Palmolive Peet Co. (3 Cir) 175 F2d 215, 217, 81 USPQ 517, 518. On the other hand an employee whose employment is 'general' is entitled to retain any patent which he procures and need not assign it to his employer, even though his employment covers a field of labor and effort in the performance of which the employee conceived the invention for which he obtained a patent." United States

v. Dubilier Condensor Corp., 289 U.S. 178, 187, 53 S.Ct. 554, 557, 17 USPQ 154, 157-158; *** see, also Dalzell v. Dueber Watch-Case Mfg. Co., 149 US 315, 320. 13 S.Ct. 886, *** Houghton v United States 4 Cir 23 P2d 386; see also Toulmin Handbook of Patents (2d ed. 1954) p. 130. Indeed even where an employee is hired to devote his time and services to devising and making improvements in articles *** manufactured" in his place of employment, he is entitled to enjoy the fruits of any invention which he conceives while so employed and is under no duty to turn the patent obtained over to the employer 'in the absence of an express agreement to that effect. Dalzell v Dueber Watch-case Mfg. Co. (Supra) ... and (others.")

Plaintiff contends and this court finds that part of Miller's duties included "devoting his efforts to a particular problem", or need of the company, as the circumstances at any given time required, and effecting a solution. Thus any "resulting invention" should belong to the employer --CM&E (Mainland). Defendant maintains, and this court does not so find, that his employment was general. That he was not specifically (sic) to invent and that

here was an express oral agreement allowing Miller to keep for himself that which he did on his own time and expense. This court must point out that specifically hired to invent does not means or require that one be solely hired to invent. The matter of on whose time the work was done and the alleged meady (sic) agreement will be taken up later.

Following Hapgood v Hewitt, the Court said "a manufacturing corporation which has employed a skilled workman, for a stated compensation, to take charge of its works, and to devote his time and service to devising and making improvements in articles there manufactured, is not entitled to a conveyance of patents obtained for inventories made by him while so employed, in the absence of express agreement to that effect." Dalzell v. Dueber.

Solomons v U.S. agreed with but restricted the above principle saying,

to his employer, since in making such improvements he is doing what he was hired to do." The court in dicta said "It cannot be contended that the invention of a specific thing cannct be made the subject of a bargain and pass in execution of it. And such we think, was the object and effect of defendant's contract with plaintiff." The court further said ... [plaintiff] "had a want in its business- a problem...and...thought...that defendant could be of some assistance in working out the problem, and the thought was natural."

U.S. v. Dubilier Condenser Corp., (supra) held "A patent is property, and title to it can pass on by assignment... The representative rights and obligation of employer and employee, touching an invention conceived by the latter, spring from the contract of employment.." Following Standard Parts the court further held "a term of agreement nencessary is that which

he is paid to produce belongs to the paymaster." The court again cited Dalzell, for the proposition that general employment required an express agreement to create a duty to assign.

Clearly these cases stand for the proposition that ownership is predicated upon the existence of certain circumstances, and expectations of employment and in their absence an express agreement to assign. The question is: Was the employee, in making his discovery, doing what he was paid to do or was it the byproduct of his general employment. The answer is found by looking at the relationship between the parties and the circumstances surrounding the inventor's employment responsibilities, obligations, and expectations.

The employee's acceptance of employment may act, under proper circumstances, as an implied agreement to assign. Relying on Solomons v. U.S., (Supra), the

3rd circuit held that [in a case] "where the patentee is employed specifically to invent or devise the particular improvement in question...an express contract to assign the patent may...be inferred from the acceptance by the employee of the specific employment." Pressed Steel Car Co. v. Hanson, 137 F 403, 414-415(1905).

Houston v. U.S., 23 F2d 386, 389 (4th 1928), cert denied 277 US 592, 48 S Ct 528, folloiwng the reasoning of Standard Parts and Solomon in holding"... if one did merely that which he was being paid to do...there can be no doubt that his invention is the property of his employer." Note there is no mention of one being paid exclusively to invent, only that what was invented was the product abd result of what one was paid to do. Such is the case with Miller's discovery of the 1978 patent. As Chief Engineer, he was being paid to either assign to his staff or implement

himself solutions to problems with CM&E equipment. The 1978 patent and its discovery were a resulting product of Millers employment with CM&E.

The Houghton court, in countering an argument similar to Miller's that defendant was not employed specifically as an inventor or to discovery the subject of the patent, said (at 390):

> "The trouble with this argument is that it gives too narrow a meaning to the word "employed". The right of the employer to the invention or discovery of the employee depends, not upon the terms of the original contract of hiring, but upon the nature of the service in which the employee is engaged at the time he makes the discovery or invention, and arises, not out of the terms of the contract of hiring, but out of the duty which the the employee owes to his employer with respect to the service in which he is engaged. It matters not in what capacity the employee may originally have been hired, if he be set to experimenting with the view of making an invention and accepts pay for such work, it is his duty to disclose to his employer what he discovers in making the experiments, and what he accomplishes by the experiments belongs to the employer. During the period that he

> is so engaged, he is 'employed to invent,' and the result of his efforts at invention belong to his employer in the same way as would the the product of his efforts in any other direction.
>
> "The broad principle is now laid down by the Supreme Court, too clearly to be misunderstood, that, when an employee employee merely does what he is hired to do, his successes, as well as failures, belong to his employer. Nor can it be said that one who willingly carried out the orders of his employer is not engaged upon that which he is employed to do. An employee, who undertakes upon the direction of his employer to solve a specific problem within the scope of his general employment, is as truly employed and paid for the particular project as if it had been described at the outset in the contract of employment."

Our own 9th Circuit Court rejected Hapgood as controlling and gave an invention to the employer when "defendant's regular duties included the design and development of machines for his employer ... More conclusive, it is not denied by [defendant] that he made other inventive contributions ... and assigned them to [plaintiff]." Fish v. Air-O-Fan Prod. Corp.,

285 F2d 208, 210 (1960.) Note again the absence of employment solely to invent and that the court took notice of other inventive contributions but did not require that all other inventive contributions by (sic) assigned in order for them to be significant.

Learned Hand in E. F. Drew & Co., Inc. v. Reinhard, 170 F 2d 679, 682 stated "...nor need the contract be express any more than any other contract; as the Restatement of Agency well puts it: 'For the employer to be entitled to a patent it is not necessary that the contract should specifically so provide.' It is a question to be decided upon all the facts of an individual case. In short, such a contract may be implied from the relations of the parties." Some of the facts the Drew court considered in looking at "all the facts" were how close the invention was to the principle business, loss of competitive

advantage, the intent of the parties, and the principles of good faith. Miller's position of keeping what he chose to work on outside of what he chose to consider the extent of his work day cannot be supported in light of what the knife holder means to CM&E and the loss of the competitive advantage of CM&E has long enjoyed. That Meady might allow inventions to closely related and each importance to his business and reputation as a leader in the field is beyond the intention of the employment contract. No business would intend to leave itself so poorly protected.

Invention ownership as it relates to employment is clarified in Crown Cork & Seal Co. v. Fankhanel, 49 F Supp, 611, 615 (1943) "...an invention made incidentally by an employee in the course of his regular or general employment .. is the property of the employee ... unless he has agreed either expressly or impliedly by virtue of

some special terms of his employment to transfer ownership to his employer ..." This court also noted that in Dubilier the defendants "made discoveries concerning a subject not within their assignment and not even under investigation by the ...section in which they were employed (617). Miller as chief engineer made the assignments to his staff in accordance with the needs of his employer. His duties as chief engineer satisfied any special term of employment requirement as they place Miller above general employment and make his discoveries more than merely incidental to his employment. A better knife holder or curative solution was under investigation by CM&E. The '73 patent was having problems plugging. Using the '68 patent cured the problem but eliminated using unslotted knives which have a longer service life and are more cost efficient. The '78 patent cures the

plugging problem and maintains use of unslotted knives -- the very answer CM&E needed when they sent Miller to Canada. Miller's position would have CM&E revert back to the '68 patent and step backward technologically when a step forward was within his contemplation and indeed was reduced to a tangible form prior to his termination with CM&E.

Miller equivocated that the 1978 patent may be an improvement and that there was nothing special in his discovery. This is all rebutted by the fact that a patent was allowed in the first place. 35 USC § 101 allows patents patents only for "whoever invents or discovers any <u>new and useful</u> process, machine, manufacturer, or composition of matter, or any new and useful improvement thereof ..." Miller underestimated to the court the significance of his device. He would have it that the solution was obvious and capable of

discovery by any engineer. However, the point is not just any engineer discovered it. Miller did and he did so while employed by CM&E and while being relied upon by CM&E to come up with such an answer. That a patent was even granted further indicates the solution was not so obvious "A patent may not be obtained ... if the difference between the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains" 35 USC § 103. Miller possesses extraordinary skill as witnessed by the fact that he has secured so many patents in the wood chip area. This skill is exactly what CM&E was buying when it hired Miller and made him their chief engineer and the duty to assign is further implied.

"The obligation [to assign] may arise where the employee has been assigned

the task of developing a device or process and [he] accepts that assignment." Marshall v. Colgate - Palmolive - Peet Co. 76 F Supp 378, 388, 77 SUPQ 69 (DCDel. 1948). Miller was sent (assigned) to Canada to cure the plugging problem experienced there and elsewhere with the 1973 unslotted knife holder. After careful inspection of the machine he represented he knew of no cure except substituting the 1968 slotted knife holder which was less desirable. Even after leaving Canada it was still the company's concern to develop a solution to the plugging problem with unslotted knives. This fell on Miller's shoulders as department head and by his continual employment and failure to assign it out to his staff he accepted the challenge as his own. The evidence shows, however, that Miller found the solution, kept it secret from his employer, quit his employer, and went into direct competition

with his employer featuring the very solution to the problem he said couldn't be cured. Marshall, also cited compliance of the inventor in assigning other patents (as in Miller's case) is an indication of his assent to assign.

Oregon case law on patent ownership is sparse. Our sister state to the south has had more experience and has cited Federal cases as being persuasive authority because of the experience of the federal courts in the area of patents and patent license. Farmland Irrigation Co. v. Dopplmaier, 48 Cal 2d 208, 221, 308 P.2d 732, 739 (1957).

Banner Metals, Inc. v. Lockwood, 3 Cal Rptr 421, 178 Cal App 2d 643 (2nd Dist Div 1, 1960) Follows (sic) Dubilier and at first blush seems to hold that one not specifically hired to invent could not be compelled to assign his patent. However, the court's language "The discovery of an

invention by an employee, whose duties to his employer do not require him to make any inventions during the course of his employment...does not deprive the employee of his invention" (3 Cal Rptr 428 citing Barton v Nevada Colsolidated Copper Co., 9 Cir, 71 F2d 381) would suggest a different result if the employee's duties did include some inventing. This is also consistent with the "general employment" and "incidental" to employment language and interpretations made by the U.S. Suppeme Court.

The Banner court noted that "(W)hether or not the inventions are to belong to the employer is a question to be decided upon all the facts. In granting ownership to Mainland that is exactly what this Court has done. Furthermore, "in patent cases, findings of the trial court based upon conflicting evidence (lay or expert) must be sustained unless clearly erroneous." Adamson v. Gilliland, 242 US

350, 37 SCT 169 (1917).

Two years later the same California court followed the reasoning of Solomons in determining patent ownership. Defendant had a job involving many facets of plaintiff's business such as design supervision of design, preparing and supervising drawings, liaison between suppliers and subcontractors and not just inventing. For a number of years the defendant did his job when for some reason he started "secreting" the product of his work for his own use at a later time.

> "He considered carefully the problems involved which were reported to him, and he devised improvements and modifications which would solve the particular problems but he did not apply such results and work product to his employer -- to the contrary he introduced a revised version of his employer's product and converted the benefits thereof to his own use."

Held by the Court:

> "Where a person is employed to design improvements to the product of his employer, or to design new products for his employer, and he does so, he

Miller was a key employee hired because he enjoyed high repute in the industry. His employment included the contemplation of inventions and answers to problems he was responsible for solving.

AGENCY

It is generally accepted that an agent cannot act adversely to the interests of his principal. In his capacity as chief engineer, board member, and especially field representative and trouble shooter Miller functioned as an agent of his employuer. "An agent has the duty to act solely for the benefit of his principal in all matters connected with the agency ... this duty applies to gratuitous as well as paid agents." Hughes v Helzer, ___ Or 250, 224, 185 P2d ___ (19470. [It is a] "Well settled and solutory principle that a person who undertakes to act for another shall not, in the same manner act for

himself...an agent violates his duty by secretly entering into relations or transactions concerning the subject matter of the agency in which he has interests adverse to those of his principal...These principles are well established and have been applied in a wide variety of cases." Marnon v. Vaughan Motor Co., Inc., 184 Or 103, 168-169, 194 P2d 922 (1948).

Miller had an obligation while he was employed by CM&E to act in its best interest. His position, as earlier stated, was much more than a general employee. He had the power to represent his employer's interests to other companies. In the field he could speak for the company and while in the field, as well as when at home plant he was expected to act in furtherance of the company's best interest and not in his own behalf. By keeping the '78 patent a secret and depriving CM&E of its benefits Miller attempted to better

himself at the detriment of his employer.

Phillips Screw Co. v. Givnan, et al, 200 Or 279, 283, 256 P2d 253, (1954) stands for the furtherance proposition that one in a confidential relationship is guilty of a breach of trust when he obtains a patent adverse to the interests of his employer as a result of that trust position. Miller was a trusted employee, privy to the innermost workings and secrets of CM&E. Because of his reputation and past loyalties he was above suspicion and reproach.

The testimony indicates that Miller had always previously assigned key patents. CM&E, therefore, placed in his hands the finding of solutions to their problems relying on his record to not violate any confidence or trust. Miller did exactly thta in his secretly developing solution to a problem that was assigned to him in reliance of his keeping its

magnitude and solution confidential.

The California Courts have made similar agency ruling with language very applicable to this case. Every agent owes his principal the duty of undivided loyalty. During the course of his agency he may not undertake or participate in activities adverse to the interests of his principal... corporate officers and directors are not permitted to use their positions of trust and confidence to further their private interests. While technically not trustees, they stand in a fiduciary relationship. Daniel Orfice (sic).

An agent or trusted employee is not totally prohibited from striking off on his own so long as certain conditions of good faith and openess are upheld. "Generally, directors and officers...rae not...precluded from... engaging in a business...similar to that of the corporation provided that in so doing they act in good

faith and do not interfere with the business enjoyed by the corporation...[a] party may not enter into a competing enterprise which injures a business or corporation of which he remains an officer or director... He may not seize for himself, to the detriment of his company, business opportunities in the company's line of activities... [He] may plan and develop his competative (sic) enterprise during the course of his agency only where the particular activity engaged in is not against the best interests of his principal" Sequoia Vacuum Systems v. Stronsky, 40 Cal Rptr 203, 206, 229 Cal App 2d 281 (1964).

While Miller as employed by Mainland, was no longer an officer or director of the corporation he was the Chief Engineer - a very key position with any machinery company. Furthermore, when asked to continue on with Mainland after

their acquisition of CM&E Miller indicated he assumed they would continue on as before -- that he would still be a trusted employee who would look after the company's best interests as he had done while an officer of CM&E. Mainland had nc reason to believe anything to the contrary as Miller had always been forward and open with any of his acitivites that involved CM&E. The Sequoia court elaborated on good faith and openess. "Protection of the principals interest also requires a full disclosure of acts undertaken in preparation of entering into competition" and cited defendant's covert behavior as evidence his bad faith. This position is consistant with Standard Brands, Inc., v U. S. Partition and Packaging Corp., 199 F Supp 161, 131 USPQ 288 (1961) which held that that "protection of the principal's interest requires...full disclosure... and defendants withholding of ... improvements

constitutes an actionalbe (sic) wrong." (See also Houghton P 390 - duty to disclose spelled out).

In addition to case law, disclosure is required by Oregon Administrative Rule 820-20-005(5)(a) and (b).

> "(5) Conflict of interest:
>
> (a) The Engineer or Land Surveyor shall conscientiously avoid conflict of interest with his employer or client, but when unavoidable, the Engineer or Land Surveyor shall forthwith disclose the circumstances to this employer or client.
>
> (b) The Engineer or Land Surveyor shall not accept assignment to nor compensation, financial or otherwise, from more than one party for services on the same project, or for services pertaining to the same project, unless the circumstances are fully disclosed to, and agreed to, by all interested parties."

The National Society of Professional Engineers code of ethics § 6, similar to the OAR, also requires disclosure:

> "The Engineer shall disclose all known or potential conflicts of interest to his employer or client by promptly informing them of any business connections, interests, or

other circumstances which could influence his judgment or the quality of his services, or which might reasonably be construed by others as constituting a conflict of interest."

As Miller was entrusted with the authority to make major decisions for the corporation and since he was in a position to profondly (sic) affect the success and reputation of his employer, the duty he owes cannot be less than that of an officer or director. This duty like that of an agent is higher than that owed by a general employee.

> "A public policy, existing through the years, derived from a profound knowledge of human characteristics and motives has established the rule that demands of a corporation officer or peremptorily and inexorably, the most scrupulous observance of his duty not only affirmatively to protect the interests of the corporation committed to his charge, but also refrain from doing anything that would work injury to the corporation or deprive it of profit or advantage which his skill and ability might bring to it ..." Bancroft-Whitney Corp v Glen 49 Cal R 825, 838-839, 64 Cal 2d 327, 411 P2d 921 (1966).

Miller his discovery and developing it for himself, deprived his company of the advantage his skill could have brought to it -- the skill and expertise he was hired for in the first place.

The Washington Supreme Court adopted what they termed as "Cardozo's classic definition" (Meinhard v. Salmon, 249 NY 458, 164 NE 545) of the duty owed to a corporation by a fiduciary.

> "...many forms of conduct permissible in a workaday work for those acting at arm's length, are forbidden to those bound by fiduciary ties. A trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior. As to this there has developed a tradition that is unbending and inveterate. Uncompromising rigidity has been the attitude of courts of equity when petitioned to undermine the rule of undivided loyalty by the 'disintegrating erosion' of particular exceptions Wendt v. Fischer, 243 NY 439, 444, 154 NE 303. Only thus has the level of conduct for fiduciaries been kept at a level higher than that trodden by the crowd. It will not consciously but lowered by any judgment of this court. Kane v. Klos, 50 W2d 778, 314

P2d 672, 675-677 (1957).

Miller as a key employee was a fiduciary and his employer was relying upon him to come up with the answer to the plugging problem that would allow for continued use of unslotted knives. When Miller found that solution he kept it to himself and went into competition with his company. A more classic example of breach of trust could not be found.

ALTER EGO

In 1918 District Court, N.D. Ill, examined the relationship to the company of one Dowse who "did not expressly contract as part of his duties to design..." Determining if he "did so agree in substance and was more than a mere employee, having the main responsibility to make the business successful"...the court said "...the real test is whether Dowse occupied such a relation to the corporation

that he was its alger ego, in such a capacity that it is only consistent with good faith that he should recognize its ownership of the patent issued to him. Can he, without breach of his obligation toward his late employer, insist upon retaining and enforcing against it the patent he took out." Dowse v. Federal Rubber Co., 254 F 308, 310 (1918).

Melin v. U.S., 478 F2d 1210, 178 USPQ 364 (1973) held that the alter ego theory of Dowse was determinative upon the relationship that existed between the employer and the inventor at the time of the invention -- not before or after. The alter ego theory differs little from the implied agreements to assign discussed previously. It also reinforces the need for the employee to be more than a general employee and emphasizes good faith. Melin places the focus on the relationship at the time of the invention and the conditions

of employment at that time.

DEFENSES

Meady Agreement. Defendant's position is based mostly upon an alleged oral agreement between Meady and Miller (formulated prior to Meady's death, Mainland's acquisition, or the '78 patent) that allowed Miller to keep as his own any patents "invented on his own time, money, and material." (Defendant's post trial memo p. 3, l. 24). The only evidence that such an agreement ever existed is Miller's word. Contrary to the defendant's arguments Miller's past practice does not bear it out nor does the case law or practices of the engineering profession.

The case law holds:

> "It matters not in what capacity the employee may originally have been hired, if he be set to experimenting with the view of making an invention, and accepts pay for such work, it is his duty to disclose to his employer what he discovers in making the

> experiments, and what he accomplishes by the experiments belongs to the employer ..." Houghton, 390, Marshall, 389.

Furthermore, an agreement "cannot be interpreted as encompassing a rights to engage in disloyal acts during the course of [defendant's] employment." Standard Brands, 172. In speaking of agreements that would appear to leave one party completely at the mercy of another the Oregon court said (citing Cardozo in Moran v. Standard Oil, 211NY 187, 105 NE 217 (1924). "An invention to make so one-sided an agreement is not to be inferred." Perkins v. Standard Oil Co., 235 Or 7, 16, 383 P.2d 107 (1963).

Miller's actions belie the existence of such a blanket understanding. His own practice and testimony proves that he assigned many patents in the past and that in his mind the '73 knife holder patent was "assumed" without question, to

be the property of the company. Bear in mind in 1978 Miller was chief engineer exclusively and in 1973 he wore the caps of chief engineer, corporate office, field representative, slaesman (sic), and trouble shooter. Miller cannot consider his work on knife holders to be without question that of the company while a parttime engineer and at a later date consider his work on knife holders to be his own when he is full time chief engineer assigned to work on the knife holder problem and effect solutions. None of the patents not assigned related to chippers. Those that did were assigned (excluding the 78 model). Prior to 1978 Miller gave notice (disclosed) all the work he was doing on patents apart from his duties at CM&E (Defendant's memo p. 4, l 13-21) and received approval from the company. There is no doubt that Miller treated the '78 patent differently than any other he

large, that patents relating to corporation business would be assigned. The alleged agreement cannot be controlling. Based upon the testimony and the evidence this court finds more reliable, I find, as a fact, there was no such agreement.

PAID TO INVENT

It has been established (above) that one need not be paid exclusively to invent in order for there to be a duty to assign. However, defendants placed a great deal of emphasis on Miller's contention from the stand that he was paid to design -- not to invent so that distinction must be answered.

Joe Lomnici and Robert Hill testified and Miller equivocated that "design" in the engineering field included inventing if the design idea was one which qualified as a patent. Miller's semantic game is to no avail. He admits he was

paid to design and design as used by his profession and understood by his employer includes inventing. "If there is a plain, ordinary , and proper meanign of a term, that is evidence of how the parties intended to use that term. Similarly, trade or business usage is also relevant." (3 Corbin on Contracts § 542 at 108, § 538 at 68-69,) Jamesbury Corp. v. Worchester Valve Co., 443 F2d 205, 210, 170 USPQ 177 (1971). The Oregon court has held that the term "design" as used in patent law refers to "ornamental design" for an item of manufacture. Portland Iron Works v. Willett, 49 Or 254, 89 P 421 (1907). Surely Miller, in choosing the term design to describe his work, does not contend he was hired to make ornamental or aesthetic innovations in CM&E's equipment. Willett, 256 held that when the defendant did in fact devise and invent products the term design must be construed accordingly.

HOURS

Defendants went to great length to show that the work done on the '78 patent was done exclusively at home during off duty hours and not in connection with the business of CM&E. The evidence tends to support an assertion that the work was accomplished outside of what has come to be known as the standard eight hour day. The testimony, however, of Miller and others in his field as well as the case law indicates the assertion is not controlling. Miller admitted he "might" have thought about the '78 patent while on duty at CM&E. In this court's opinion it is impossible for Miller to control his thought processes to such a fine point that he can keep separate "his" work from "their" work and never the twain meet. Miller testified that his hours with CM&E were not regular, that they would vary according to the needs of the

job and that often he took work home after hours. The evidence indicates that in the engineering field a salaried employee's job related time at home or at work is his employer's.

Miller was hired at an agreed upon remuneration (sic), regardless of the specific hours needed, to get the job done. He was not hired at an hourly rate nor was he in a position where he could just walk totally away from his work when the whistle blew and keep it separate from CM&E related business. National Development v. Gray, 55 NE 2d 783, 788, 316 Mass 240 (1944) the defendant drew plans to company related business while at home. The court held "even though the drawing was prepared in his own home, we think it came within the scope of his employment... and that it belonged to [plaintiff] no less than if the drawings was made at [plaintiff's] shop."

Toledo Machine and Tool Co. v Byerlein, 9 F2d 279, 281 (6th in 1925) held ... "We do not consider the claim made by defendant that he developed the patentable idea at night as of the slightest importance. His salary was paid ... for the month. Certainly under the [employment] contract it would make no difference what time in the day or night such ideas were developed."

Daniel Orifice (supra 666) held "it is difficult to understand how [defendant] could cut his mind off and on at will under the circumstances, i.e. think of things during the lunch hours, for example, which would constitute an improvement to [plaintiff's] product, and later claim such improvement as his own because he was not working for the company at that particular moment when the thought struck him."

BAD FAITH

In this case something must be said regarding Miller and Swafford's apparent bad faith. By the evidence it was only on the '78 patent that Miller pursued a secret course of action. All other inventions were disclosed without any problems. The Court can only surmise that Miller was trying to hide his activity from his employer. PAR 820-20-005(1) addresses the type of conduct:

"Integrity: The Engineer shall act with integrity in professional matters for each client or employer as a faithful agent or trustee. He shall be honest and impartial, and shall serve the public, his client, and his employer with equal devotion."

Furthermore, the fact that the '78 patent is interchangeable with all of CM&E's bent knife chipper heads (slotted or unslotted) is more than coincidence.

Miller did not invent the '78 patent just for fun. The evidence indicates very strongly that at the time the '78 patent was formulated it was intended as a replacement part for CM&E's then existing line of products. This combined with Miller's and Swafford's taking of documents not rightfully theirs adds up to bad faith and unclean hands and this Court cannot condone such activities.

For the above stated reasons this Court finds the patent to rightfully belong to CM&E (mainland (sic)). However, under the general powers of equity, this Court grants to Miller a nonassignable license to use the '78 patent. This is done because Miller, had he have been truly larcenous, could have handled the matter with more cunning and probably have succeeded. What a man carries away in his mind from a former position of employment is usually his unless there is a signed

covenant not to compete for a specific (relatively short) duration. No company can lay claim to expertise gained and knowledge gleened from ones employment as a man's education and knowledge are uniquely and unqualifiedly his. Miller wanted the patent for his own. He just went about it in the wrong way. Establishing proper ownership is adequate remedy for Mainland and granting Miller license to use it is equitable allowance for the continued position as a leader in the field his ingenous device puts Mainland in. This Court is not saying Miller's actions were not wrong. However, had he handled it differently, ownership might be his and it is only equitable in that light that Miller enjoy some of the fruits of his labor and recover something for his diligence in spending weekends and evenings reducing the idea to a tangible form and for paying for the expense of the copy-

righting (sic) it.

ISSUE II

Should the documents taken by defendants be returned.

CONCLUSION

The existence or nonexistence of trade secrets in the documents is not determinative. The documents were the property of CM&E and the defendants had no right to take them. They should be returned to CM&E/Mainland.

DISCUSSION

There is no contradiction in the evidence that the materials taken were other than the property of CM&E or assimilated by defendants during and in the course of their employment with CM&E.

Midland-Ross Corp v. Yokana, 185 F Supp 594, 604 (D NJ 1960) affirmed 293

F2d 411 (1961) held in a similar case "...[Defendant] had no right to retain drawings or blueprints which were property of his employer after the termination of his employment, nor had he any right to retain or use his employers customer lists, price lists, or pricing data for his own... [P]laintiff is, therefore, entitled to the return to it by the defendants all drawings and blueprints [taken]."

The Midland view is consistent with the view that what one is paid for becomes the property of his employer." When an employee does what he is hired to do, his successes as well as his failures, belong to his employer." Crown Cork and Seal Co v. Fankhalel., 49 F Supp 611, 615 (DDM 1943). This is in line with the Code of Ethics-Professional Engineers of Oregon § 14 (d) "Designs, data, records, and notes made by an engineer and referring

exclusively to his employees work are his employees property." Standard Brands, (Supra at 172) held "continued use of ... drawings following termination of defendant's agency ... is also wrongful use and retention of drawings by [defendant] constitutes misappropriation of plaintiff's property.

The materials retained by Swafford fall in the same general type of documents as Millers. They were promulgated during and in the course of his employment Swafford has no claim to these materials as they came to be a result of his tenure with CM&E and the service to them that he was paid for. These must be returned. It may be argued, return of these documents offers little recompense to plaintiff's considering the years of trial and error and expense incurred by CM&E in the cost estimates. There is little insulation any employer hsa to retain the loyalty and fidelity of an ambitious employee.

Suffice it to say, plaintiff hired Swafford -- they made it possible for the present situation to germinate -- the result naturally followed.

Turning to the request of defendants for special Findings of Fact, I submit.

1) Yes. However, question 3 should be requested first because this answer is given within the definition of question 3. The drawings, plans, specifications submitted to the varoius machine works were clearly "secrets" of the plaintiff, having been developed over several years of trial - and - error. True, the finished product may not have been a "secret" but all the data on which the parties relied was confidential and secret. Just the same with their cost estimate and the data relating to all aspects of costs would constantly

be used in the scheme of competitive bidding.

2) Yes. See answer to 1).

3) I define a trade secret in several different ways but in this case, it is that information obtained by an owner through trial and error. It is the result of his own research in his particular field for the purpose of developing a more competitive product. It is knowledge beyond that known by the general public and short of being applied in the finished product.

4) No. Personal letters sent and received, things of that nature, yes, but not the documents called to the attention of and deposited with the Court.

5) Yes. In my opinion there was injury suffered by plaintiff but it was not proved in dollars.

6) Yes. Miller was the chief engineer. He was in charge of machinery design as well as its operation. During the time of his tenure with CM&E, he probably made some improvement on every machine they sold. When a problem arose, it was Miller who was expected to correct it. Because a patent was not taken out on each improvement he made, would not change the characterization of his work. Certainly, this includes "design." In this situation, there is little fiference (sic) between "design" and "invent". The facts showed, if a machine did not do the work it was designed to do, then Miller was to change it - either design or a new approach. I concede he was not hired to spend his time experimenting with models so that a patent could be taken out.

that point he was hired by plaintiff, in the capacity of Chief Engineer and was placed in charge of plaintiff's engineering department. He remained so employed until his retirement in February, 1978.

II.

Defendant E. H. Swafford was hired by plaintiff in January, 1976, as its Chief Accounting Officer. He remained so employed until August 1977 when he quit.

III.

Plaintiff Mainland Industries, Inc. is a Delaware corporation. On December 3, 1975 plaintiff acquired all of the assets of Chipper Machiens & Engineering Corp. and became the successor to all of that company's rights and interests.

IV.

Defendant Fred Miller's employment duties as plaintiff's and its predecessor's Chief Engineer included:

(a) inventing, designing, developing, and engineering products and improvements produced and sold by those companies.

(b) solving problems arising in connection with the use and design of the companies' products by inventing, designing, developing, and engineering improvements and modifications to prevent such problems from recurring in the future;

(c) assigning to his subordinates in the engineering department specific projects on which to work, including inventing, designing, developing, and engineering various products, solving various problems with existing products, and improving existing products.

(d) making it possible for those companies to reduce facturing (sic) costs for products and increase

profits;

(e) working with each company's patent attorney to secure appropriate patent protection for inventions, developmentes, and designs of the kind set out above in subparagraphs (a) through (d) above and assigning to the companies all rights to those patents; and,

(f) serving as an officer and director of Chipper Machines beginning in 1973 until the acquisition by plaintiff.

V.

Defendant Miller was employed by plaintiff or its predecessor when he conceived the idea for the 1978 patented knifeholder. Although he first testified that he invented the knifeholder in mid 1976 while he was employed by plaintiff, he later stated that he conceived the idea in mid 1975 while employed by plaintiff's

predecessor as Officer, Director, and Chief Engineer. Regardless, Miller was employed by plaintiff while he made modification in his original idea and when he prepared the drawings and made application for the patent.

Miller was not able to recall where he was when he conceived the idea for the 1978 patented knifeholder, but it seemed likely to him that he thought about it at work.

VI.

Miller was a salaried employee. His employment was not limited to specific hours and it was his practice to work evenings for his employer both at and away from his employer's premises.

VII.

Miller had a duty while employed by plaintiff and its predecessor to:

(a) work on correcting the knife-holder if there were complaints about

its efficiency or operation or to improve its performance.

(b) devote the time required to a project if a patent was within reasonable contemplation.

(c) assign work for improving the knifeholder to other trusted persons in his department if he did not have the time to do it himself.

(d) follow up on (c) and see that the problem were solved.

(d) (sic) disclose all ideas to his employer that were relevant to its products.

(e) (sic) not work secretly in competition with his employer and

(f) (sic) assign the patent on the 1978 knifeholder to plaintiff.

VIII.

That he had no binding agreement with Meady that would allow him to keep all inventions and that such an agreement,

regardless what it was, would not be binding on plaintiff.

IX.

As a professional engineer Miller was obliged to seek an express agreement with plaintiff if he wished to retain for himself any patents on improvements to plaintiff's product line, if he wished to compete with plaintiff on his own time, and if he wished to alter his basic duties of loyalty and as a trustee of plaintiff's interests.

X.

When Miller left plaintiff's employ, he took with him engineering records owned by plaintiff. The documents contain information not generally known to plaintiff's competitors which gives plaintiff an advantage over those competitors who do not know the information. Information contained in the documents was developed at great expense to plaintiff

and its predecessor. The documents would be very useful to anyone attempting to duplicate plaintiff's products or to compete with plaintiff, particularly defendants. The documents also contain information that plaintiff needs to operate its business. The documents that should be returned to plaintiff are Exhibits 62, 63, 68-73, 75-75-78, 80-100, 102A, 104-129, 132-33, 136-143, 146-149.

XI.

When defendant Swafford left plaintiff's employ, he also took financial and accounting records owned by plaintiff. These documents contain financial and cost information not generally known to plaintiff's competitors which gives plaintiff an advantage over those competitors who do not know or use it. Information contained in the documents was developed at great expense to plaintiff. The documents would be very useful to anyone attempting to

duplicate plaintiff's products or to compete with plaintiff, particularly defendants. The documents that shall be returned to plaintiff are Exhibits 33-61.

CONCLUSIONS OF LAW

1. The Court has jurisdiction of the parties and subject matter.

2. Plaintiff is declared to be the owner of patent #4,082,127 (the 1978 knifeholder) and Miller shall assign all ownership in the same to plaintiff.

3. Miller shall have an equitable non-assignable right to the free use of the knifeholder, either into himself or a company he may form or be associated with (such as CM&E for his life. This right of Miller to the free use of the knifeholder shall terminate upon his death and may not be transferred, assigned, or bequeathed to any other person or company.

4. The documents, Exhibits 62, 63, 68-73, 75-78, 80-100, 102A, 104-129, 132, 133, 136-143, 146-149 and 33-61 shall be returned to plaintiff.

5. In favor of defendants on plaintiff's claims for damages.

6. In favor of plaintiff on defendants' counterclaim.

Dated this 3rd day of September, 1980.

/s/ DALE JACOBS
Judge

IN THE SUPREME COURT OF THE
STATE OF OREGON

MAINLAND INDUSTRIES, INC., a Delaware corporation,	)	
Respondent on review	)	Trial Court No. 78-6-90
v.	)	
TIMBERLAND MACHINES AND ENGINEERING CORPORATION, an Oregon corporation, E. H. SWAFFORD, F. L. MILLER and JOHN DOES 1 through 20,	)	Appellate Court No. 19614
Petitioners on review	)	

The Supreme Court on November 2, 1982, denied petitioners' Petition for Review in the above-entitled matter.

This letter constitutes the order of the Supreme Court denying the petition.